TortoiseEcofin QuickTake Podcast

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Welcome to another TortoiseEcofin QuickTake podcast. Thank you for joining us. On this podcast, we highlight what happened in the energy sector during the month of October.

Hello, I am Tortoise Senior Portfolio Manager Rob Thummel.

The month has come to an end. October is notorious for delivering tricks and treats to investors in the stock market. This year was more about tricks as the S&P 500 declined by 2.1%. The broad energy sector as represented by the S&P Energy Index declined by 6%. One small treat came from the energy infrastructure sector as represented by the Alerian Midstream Energy Index which declined by less than a half of a percent.

The stock market continues to be spooked by the rise in interest rates. During October, the 10-year Treasury yield hit a 16-year high. The 10-year ended the month at 4.9 percent – the highest rate since July 2007. Historically, energy infrastructure stocks outperform during periods of rising rates. The 10-year has increased by almost 4.5 percent from a low of 0.5 percent in March of 2020. During this period, energy infrastructure stocks have returned over 20 percent on an annualized basis compared to S&P 500 annualized returns near 10 percent.

U.S. oil prices started the month around $89 per barrel. When Hamas attacked Israel on October 7th, oil prices temporarily rose to near $90 per barrel but fell by the end of the month to around $81. As we think about oil prices, $80 is the starting point based on current supply and demand. Any dollar above $80 represents a geopolitical risk premium so current oil prices at approximately $81 per barrel are reflecting a minimal amount of geopolitical risk. There are several underlying conflicts ongoing in the Middle East right now so it is possible that oil prices could temporarily spike should current tensions escalate as global oil inventories are below historical norms.

In the U.S., the EIA reported that U.S. oil production reached a record high of 13.2 million barrels per day surpassing the previous peak in February of 2020. What is not getting enough attention is that the U.S. is producing record levels of crude oil with 25% less rigs than when the last peak was reached. How is this happening? Oil producers have quietly improved drilling efficiencies based on improved data and better technology. As an example, oil producers are now drilling 3 mile long lateral wells in many shale basins. It wasn't that long ago when a 1 mile lateral well was a huge technological feat.

On the natural gas front, every other year the Potential Gas Committee releases its potential supply of natural gas in the United States. This year's report was unveiled at an event sponsored by the American Gas Association indicating a future gas supply of 3,978 trillion cubic feet which is 3.6% higher than the 2020 report and the highest reported level on record. For reference, current U.S. production is approximately 36 trillion cubic feet per year. Based on this report, the U.S. would have approximately 111 years of supply of natural gas. Another reason to love the long-term potential for U.S. natural gas infrastructure.

To finish up, October saw the return of the mega-merger to the energy sector. The first was announced by ExxonMobil. Exxon offered to buy Pioneer Natural Resources in an all-stock transaction valued at almost $60 billion. Pioneer was an early adopter of U.S. shale technology becoming the largest independent producer in the Permian Basin. Pioneer put the Permian on the map leading the way in development of the Permian Basin into one of the most essential oil regions in the world. Pioneer was highly coveted given its low drilling cost and its size. Exxon can now unleash one of the most sophisticated engineering teams on a large asset footprint that can lead to more innovation and increase production growth. In our, view, the key takeaways from this deal are as follows: First, Exxon could buy any energy asset in the entire world and it chose the Permian Basin oil. Second, this deal indicates that oil demand is going to be around a while and the Permian Basin is going to be really important to keeping the global oil market supplied. As the Saudi oil minister recently stated Exxon didn't spend $60 billion to buy stranded assets.

We only needed to wait 11 days for the next mega-merger in the energy space to be announced. This time Chevron announced plans to acquire Hess Corporation in an all-stock transaction valued at $53 billion. Hess Corporation was founded in 1933 but this transaction will end the Hess legacy in the energy sector. The Hess 30% non-operating interest in a massive oil project off the coast of Guyana was the crown jewel of the transaction. Ironically, Exxon is the operator of this project. Once closed, the Hess transaction diversifies Chevron's production regions adding the Bakken and previously mentioned Guyana to Chevron's asset footprint that includes the highest growth oil producing regions outside of the Middle East.

The natural question is what is the next mega-merger in the energy space. Exxon and Chevron will both be busy closing and integrating these mergers so they will likely be on the sidelines for a while. However, several of integrated oil and gas producers as well as independent oil and gas producers could join forces in the coming year. Related to the energy infrastructure sector, we don't expect announcements of mega-mergers like is happening in the oil and gas sector.

Thanks for listening and have a great day!

Thank you for joining us. And stay tuned for our next episode. Have topics you want covered or other feedback to share? Write us at info@tortoiseecofin.com.

The **Alerian Midstream Energy Index®** is a broad-based composite of North American energy infrastructure. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMNA) and on a total-return basis (AMNAX).

The **S&P Energy Index** is a float-adjusted market capitalization-weighted index comprised of S&P 500 companies that are classified as members of the GICS® energy sector.

The **S&P 500® Index** is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance.